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INTRODUCTION

The Office of Internal Audit performed an audit of Otsego County FIA for the period October 1, 1998 through March 19, 1999. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (MFIA) are being followed. Otsego County FIA had 19 full time equated positions (FTE's) at the time of our review. Otsego County FIA provided assistance to an average 1,042 recipients per month during FY 1998, with total assistance payments of \$1,098,085.91 during that year.

SCOPE

Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Otsego County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. We included the following systems:

Client Processing	CIS
Cash Disbursements	Cash Receipts
General Ledger	Accounts Receivable
Safe & Controlled Documents	IRS Information Security
Food Stamp Mail Issuance	Modified Accrual Balance Sheet
Payroll Review	Telephone Usage
Medical Transportation	ENP/SER Payments
Procurement Card Purchases	

EXECUTIVE SUMMARY

Based on our audit, we conclude that the Otsego County FIA internal controls need improvement in order to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We found several instances of noncompliance with MFIA policies and procedures and weaknesses in internal controls, which are detailed below.

LOCAL OFFICE RESPONSE

The management of Otsego County FIA has reviewed all findings and recommendations included in this report and are in general agreement. They indicated in a memorandum dated March 31, 1999 that they are in general agreement with the report, and that corrective action has been taken for all items in the report.

FINDINGS AND RECOMMENDATIONS - COMPLIANCE

The following are areas where we found that the Otsego County FIA was not operating in accordance with MFIA policies and procedures that are described in manuals or instructional letters.

Mail Log

1. The Otsego County FIA mail clerk did not forward a copy of the Record and Disposition of Checks/Warrants (FIA-61) to the fiscal clerk with the negotiable items received in the mail, as required by Accounting Manual Item 431. Forwarding a copy of the FIA-61 to the fiscal clerk provides a record to ensure that all cash and negotiables received are properly accounted for.

WE RECOMMEND that the Otsego County FIA mail clerk forward a copy of the FIA-61 to the fiscal clerk with the cash and negotiable instruments.

Receipting of Checks/Cash

2. The Otsego County FIA mail clerk prepares the Official Cashier Receipt for negotiables received in the mail and over the counter. Accounting Manual Item 433 requires the local office cashier receive the mail logs and negotiables to prepare the cashiers receipt. Having the cashier prepare the receipts ensures the funds are properly accounted for and there is proper separation of duties between mail opening and cash receipting.

WE RECOMMEND that the Otsego County FIA have the cashier prepare the cash receipts from the mail logs and the negotiables received.

Daily Mail Record of Cash Receipts

3. The Otsego County FIA did not use the Daily Mail Record of Cash Receipts (FIA-4729) for all negotiables received for deposit. Instead the County used the Record and Disposition of Checks/Warrants (FIA-61) to record all negotiables received in the mail. Accounting Manual Item 431 states that a FIA-4729 is to be used to record negotiables received for deposit.

WE RECOMMEND that Otsego County FIA record all negotiables for deposit on the FIA-4729.

Separation of Duties - Disbursements

4. Otsego County FIA did not properly separate the cash disbursement duties. Our review disclosed that the same employee signed the checks, prepared the Sign-O-Meter Record (FIA-4711), has access to blank checks, has control over the blank check inventory and performed the bank reconciliation. Accounting Manual Item 410 states that for internal control purposes, the person responsible for signing the checks should be an employee

independent blank check inventory. Accounting Manual Item 410.1 states that the FIA-4711 should be prepared by someone independent of the check signing function if that person has access to blank checks. Accounting Manual Item 405 states that the person reconciling the disbursing account should not be responsible for check signing, or blank check inventory.

WE RECOMMEND that Otsego County FIA have an employee perform the bank reconciliation who is independent of the control over the blank check inventory, check signing function and preparation of the FIA-4711.

Sign-O-Meter Reconciliation

5. Otsego County FIA did not document the reconciliation of the Sign-O-Meter Record (FIA-4711) with the Check Register, as required by Accounting Manual Item 410.1. Documentation that this reconciliation was performed is necessary to ensure that no checks go through the check signer that are not accounted for in the accounting records.

WE RECOMMEND that Otsego County FIA document the reconciliation of the Sign-O-Meter Record with the Check Register.

Supporting Documentation for Payments

6. Otsego County FIA did not attach supporting documentation to the Authorization/Invoice (FIA-849) in the fiscal office for 7 of 25 transactions we reviewed. However, for 5 of the payments we found the original documentation in the case file. In addition, eight payments had copies of bills or invoices instead of the original invoice. Accounting Manual Item 404 requires that an original bill or invoice be attached to the payment authorization document. An original attached or vendor invoice provides assurance that payments made are proper and correct.

WE RECOMMEND that Otsego County FIA attach an original bill or vendor invoice to all payment authorization documents.

Controlled Document Log

7. Otsego County did not properly control blank documents. We noted that the local office was not using the Controlled Document Log (FIA-4070) for Official Cashiers Receipts (FIA-3681), Blank Voucher Checks (FIA-1802), and Temporary Food Stamp Identification Cards (FIA-183A) and was not preparing the Monthly Controlled Document Inventory and Reconciliation (FIA-4351) for the FIA-183A's as required by Accounting Manual Item 403. Use of the Controlled Document Log and preparation of the Monthly Controlled Document Inventory and Reconciliation help to ensure that loss, theft, or misuse of controlled documents, which could be used to generate unauthorized payments, would be detected on a timely basis.

WE RECOMMEND that Otsego County FIA use the Controlled Document Log and prepare the Monthly Reconciliation for all controlled documents.

Medical Transportation

8. Otsego County FIA did not have completed Medical Needs Authorizations (FIA-54A) or comparable documentation on file for 2 of the 4 cases we tested. Program Administrative Manual Item 825 and Accounting Manual Item 416 required that properly completed FIA-54A's be on file to document the need for medical transportation. Also, we noted one payment for Medical Transportation was for 2 days, and 2 breakfasts, 4 lunches and 4 dinners. Rates charged for meals were at the state employee rate opposed to the volunteer driver rate. Completion of all required information on the FIA-54A and proper

documentation to support expenditures helps to ensure that medical transportation payments are only authorized when there is a documented medical need.

WE RECOMMEND that Otsego County FIA ensure that Medical Needs Authorizations and proper documentation are on file to document the need for all medical transportation payments.

Security Officers Log Report (PD-180)

9. Otsego County FIA did not reconcile the Security Officers Log Report (PD-180) to the Security Agreements (FIA-3974A's). L-Letter L-97-063 requires the reconciler to review this report to a signed Security Agreement to ensure that all changes are accurate. For internal control purposes the reconciler must not be the CIS Security Coordinator and someone without access to CIS.

WE RECOMMEND that Otsego County FIA reconcile the PD-180 report to revised Security Agreements.

CIS/ASSIST Security Agreements

10. Otsego County FIA did not have accurate, up-to-date CIS Security Agreements (FIA-3974A) on file for all employees who access the Client Information System (CIS), as required by L-Letter 97-063. For 11 out of 20 agreements we reviewed the status code indicated on the FIA-3974A did not agree with the current status code listed on the Operator Identification Report (PF-011). Nine out of 20 employees had no FIA-3974A on file. The ASSIST Security Agreements and Profile (FIA-3720, FIA-3721) were not completed for 4 and 9 employees respectively who has access to ASSIST according to L-Letter 97-156.

WE RECOMMEND that Otsego County FIA prepare up to date and complete FIA-3974A's, FIA-3720 and FIA-3721's for all employees who have access to CIS and ASSIST.

RECOMMENDATIONS FOR IMPROVED INTERNAL CONTROLS

The following are areas where we have identified a control weakness at Otsego County FIA, and we are recommending a change in procedure to reduce the risk associated with the control weakness.

Backup Designated Staff Person

11. Otsego County FIA did not have a backup Designated Staff Person (DSP) for IRS Security. The local office should have a backup DSP in case information is received on a day when the DSP is out of the office.

WE RECOMMEND that Otsego County FIA appoint a backup DSP for IRS information security.

Control of Bus Tokens

12. Otsego County FIA did not control the inventory of bus tokens. Bus tickets were kept in the safe, but no inventory records were maintained. Bus tickets are negotiable and are used to authorize payments; they should be controlled to prevent misuse.

WE RECOMMEND that Otsego County FIA control the inventory of bus tickets.